

**PIERCE COUNTY FIRE PROTECTION DISTRICT NO. 15**  
**Pierce County, Washington**  
**Special Audit**  
**January 1, 1993 Through December 31, 1995**

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**Schedule Of Findings**

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1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed

Our audit of the financial records of Pierce County Fire Protection District No. 15 revealed that at least \$6,877.26 in public funds was misappropriated by one or more district employees during the period January 1, 1993, through December 31, 1995. Accounting records were falsified and destroyed in an attempt to conceal some of these losses. There were no federal funds involved in this case. These funds were misappropriated as described below:

a. Cash receipts totaling \$2,662.61 from both recorded and unrecorded district revenue transactions were taken by the former district accountant.

(1) Two checks made payable to the district were actually cashed by the accountant rather than deposited with Pierce County. District records supporting these revenue transactions included a false letter of transmittal to Pierce County and other false accounting records indicating that these funds had actually been made a part of the district's cash balance. One of these checks was a claim payment from an insurance company (\$1,912.61). The other check was a donation from a citizen (\$500.00). On March 25, 1996, the accountant stated that she paid her personal medical bills with these funds.

(2) The accountant made a \$500 "cash back" withdrawal from an October 7, 1995, deposit into the district's burn permit agreement bank account. On March 25, 1996, the accountant stated that she kept half of these funds for her own personal use. As discussed below, she put the remaining \$250 in the district's petty cash fund to make up for an unreported shortage in the account. Thus, the net amount of loss from this transaction which was directly attributed to the actions of the accountant was \$250.

b. The district's accounting records indicate that revenue from recorded burn permit agreement transactions totaled \$4,665.00 during the period January 1, 1993, through December 31, 1995; however, only \$1,003.50 from this source was subsequently deposited in the district's bank account. The difference (\$3,661.50) could not be properly accounted for at the district. However, the following irregular activities did occur at the district during the period of this audit.

(1) Our review of burn permit agreement cash receipting records disclosed that funds collected from 124 cash and check transactions were never deposited in the district's bank account.

(2) The retired fire chief made miscellaneous purchases of supplies for the district from a variety of cash receipt sources. The amount of these

transactions was unknown. These "off-book" transactions were not approved by management officials through the district's claims system.

(3) The retired fire chief regularly bought lunch for himself and other district employees over a long period of time. Employees reported that up to five or more people usually went to lunch at least three days per week over a three-year period. The retired fire chief paid for these lunches with revenue from burn permit agreements and donations by citizens. The value of these lunches can be conservatively estimated to be at least \$10,530. These "off-book" transactions resulted in a personal benefit to the former fire chief and other district employees and were not approved by management officials through the district's claims system. When questioned about the extent of these lunches during this audit, the retired fire chief stated that he never took this many people to lunch.

(4) The retired fire chief also directed an employee to destroy many district records, including burn permit agreement cash receipting documents. While district employees were able to safeguard some of these accounting records for the purposes of this audit, most burn permit agreement books prior to January 1, 1993, had been prematurely destroyed.

- c. The district's accounting records indicate that the proceeds from an October 1995 surplus sale were \$2,922.15; however, only \$2,610.00 from this source was subsequently deposited with Pierce County. The difference (\$303.15) could not be properly accounted for at the district.
- d. The district petty cash fund was reportedly \$250 short during the period of this audit. The accountant made a \$500 "cash-back" withdrawal from an October 7, 1995, deposit into the district's burn permit agreement bank account. On March 25, 1996, the accountant stated that she put \$250 of these funds in the petty cash fund to make up for this shortage. As discussed above, the accountant kept the remaining \$250 for her own personal use.

We interviewed the accountant in the presence of her attorney on March 25, 1996. During this meeting, the accountant admitted that she took district funds for own personal use as indicated in this report.

We also met with the retired fire chief in the presence of his attorney on March 25, 1996. On the advice of his attorney, the retired fire chief declined to be interviewed about the results of this audit.

RCW 42.20.070 states:

**Misappropriation and falsification of accounts by public officer.**

Every public officer, and every person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

- (1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her, or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account, or

(4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than 15 years.

Article VIII, Section 7, *Constitution of the State of Washington* states in part:

**Credit not be loaned.** No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation . . . .

RCW 42.23.070 states in part:

**Prohibited acts.** (Effective January 1, 1994) (I) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others . . . .

The following internal control weaknesses allowed one or more district employees to conceal these losses without being detected by management officials.

- a. There was an inadequate segregation of duties. Practically all the functions of the cash receipting function was the sole responsibility of the former district accountant. However, there was no periodic management review of the work performed by the account which would accomplish the same objective as a segregation of duties between two or more employees.
- b. The district failed to limit access to public funds and to fix responsibility for public funds to a single individual. Thus, any employee with access to the office could have had access to any district funds retained in the office during the day or stored in the safe overnight. For example:

(1) Access to the accountant's office was not restricted. Several employees also performed cash receipting functions and left funds in the accountant's desk when she was not present in the office. In addition, revenue transactions were not always recorded by district employees as required.

(2) Our review disclosed many accounting irregularities. For example, we noted 124 instances where cash and checks from burn permit agreements were actually receipted, but never deposited in the district's bank account, as well as 15 instances where checks were deposited in the bank account, but never receipted by the district as required. In addition, checks which should have been deposited with Pierce County were actually deposited in the burn permit agreement bank account.

(3) The safe combination was written down and taped beneath the retired fire chief's desk. In addition, the safe combination was not changed periodically or when people who had access to the safe terminated employment at the district.

- (4) The accountant's husband made a least one bank deposit for the district.
- c. Accounting records were not always maintained properly at the district. On at least one occasion, the accountant kept certain records at her home. In addition:
- (1) Burn permit agreement cash receipting records were inadequate. These forms were not prenumbered, were not encoded with the district's name, and did not display the stated cost of the permit. Cash receipt forms were left blank, removed from the receipt book and kept in the accountant's desk, or prematurely destroyed. Other receipt forms indicated irregularities such as the use of "white-out" and "write-overs" of pertinent information. In addition, these records were not retained in accordance with the required retention policy.
  - (2) The district used a generic cash receipt book rather than an official cash receipt book with prenumbered cash receipt forms indicating the district's name. These generic cash receipt books provide little control over district revenue because anyone can purchase them at a variety of office supply stores.
  - (3) Checks from the district's burn permit agreement checking account were not prenumbered and did not have the district's name printed on them. In addition, only one signature was required for the issuance of these checks.
- d. Cash receipts were not deposited intact daily with Pierce County. The accountant retained cash in her work area, and held checks for periods of time ranging from two weeks to three months. As a result, one citizen wrote a letter to the district to complain that their check had not been cashed for approximately 90 days.
- e. The retired fire chief made miscellaneous purchases of supplies for the district from recorded and unrecorded cash receipts, and bought lunch for himself and other district employees. Part-time employees were also paid in cash from these funds rather than through the district's payroll system. These "off-book" transactions were not approved by management officials through the district's claims system.

We recommend Pierce County Fire Protection District No. 15 seek recovery of the misappropriated \$6,877.26 and related audit/investigation costs from the former district accountant, the retired fire chief, and their insurance bonding company as appropriate. We further recommend the Washington State Office of the Attorney General and the Pierce County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district is as follows:

Firemen's Fund Insurance Company  
Crime Declaration Section (Employee Dishonesty)  
Policy No. MXG80624267  
\$25,000 With \$100 Deductible Provision  
July 1, 1992, to July 1, 1996

We also recommend the district:

- a. Review overall accounting controls for the cash receipting function, correct the weaknesses outlined above, and implement an effective system of internal control

designed to ensure the protection of public assets.

- b. Notify the insurance bonding company of this loss of funds.
- c. Retain all accounting records in accordance with the required retention policy.

2. Consultants Should Be Paid Through The District's Claims System To Preclude Overpayments

Pierce County Fire Protection District No. 15 hired the retired fire chief as a consultant during the period June 1, 1995, through January 3, 1996; however, the consultant's fee was improperly paid through the district's payroll system. As a result, the district paid unnecessary Social Security (FICA) benefits and Social Security Medical benefits on behalf of the retired fire chief, totaling \$578.34. While this consultant contract was reportedly pursuant to Resolution No. 95-205, the district was unable to locate this document of the purposes of this audit.

Article VII, Section 7, *Constitution of the State of Washington* states in part:

**Credit not to be loaned.** No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation . . . .

We recommend the district:

- a. Seek recovery from the retired fire chief for the \$578.34 overpayment of benefits associated with this consultant contract.
- b. Retain all pertinent records in accordance with the required retention policy.